



**DEPARTMENT OF THE NAVY**  
**OFFICE OF THE ASSISTANT SECRETARY**  
**(FINANCIAL MANAGEMENT AND COMPTROLLER)**  
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**WASHINGTON, D.C. 20350-1000**

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MEMORANDUM FOR DISTRIBUTION

Subj: FINANCIAL GUIDANCE NECESSARY TO SUPPORT AN UNQUALIFIED  
OPINION ON THE CHIEF FINANCIAL OFFICERS ACT FINANCIAL  
STATEMENTS FOR FISCAL YEAR 1999

Encl: (1) General Guide of Common Financial Operations and  
Processes

The Chief Financial Officers Act of 1990 (Public Law 101-590), as amended by the Government Management Reform Act of 1994, requires the annual submission of audited financial statements. The Department of the Navy (DON) has prepared and submitted annual financial statements for its revolving and trust funds every year since Fiscal Year (FY) 1991, and for all other appropriations and funds since FY 1996. The Naval Audit Service has, with minor exceptions, issued a disclaimer on these statements. A disclaimer is issued when the auditor is unable to render an opinion as to the fairness of the financial statements because the scope of the work was not sufficient or the nonconformity to generally accepted accounting principles was too extensive to express an opinion on the statement. Obtaining an unqualified opinion on the DON's FY 1999 annual financial statements is a goal of the Administration.

There are numerous issues raised by the auditors concerning the Department's ability to produce accurate financial statements. Internal controls have been cited in every audit. To aid compliance with the Department's goals, internal controls must be strengthened throughout all levels of the Department. All commands and activities must fully comply with current financial standards. Audits of annual financial statements have cited numerous instances of non-compliance. A general guide has been developed to assist you in evaluating your financial operations and processes, and is provided at enclosure (1). A list of the references used is also shown. Where a more in depth understanding of what must be done is needed, a review of the standards and guidance in the DOD Financial Management Regulations should be undertaken. The intent of enclosure (1) is to assist in the requirement to carry out a comprehensive

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evaluation. Additionally, your coordination of this effort with  
the servicing Defense Finance and Accounting  
Service Operating Location is advised.

  
**GLADYSJ.COMMONS**  
Principal Deputy  
*Assistant Secretary of the Navy*  
(Financial Management and Comptroller)

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# **General Guide of Common Financial Operations and Processes**

This enclosure outlines the more important guidance necessary for the Department of the Navy (DON) to achieve an unqualified opinion.

For ease of use the guide is organized into sections, as follows:

General

Budgetary Resources

Status of Budgetary Resources

Relation of Obligations to Outlays

Vendor Payments

Administration of Appropriations

Problem Disbursements

Mid-Year Review & Year-end

References

Attachment A: "Certification Package Certificate"

## **General**

1. As a Major Command, do you access the official DON departmental SF-133, DD COMP(M) 1002 and DD COMP (M) 725 financial reports? Do you review this information to gain a greater understanding of the departmental perspective and your place in it? The departmental reports are available in either hard copy format or on-line in the Standard Accounting and Reporting System Financial Department Reporting (STARS FDR) accounting system. Contact the Defense Finance and Accounting Service-Cleveland (DFAS-CL) for assistance in obtaining reports.
2. Do you extract the STARS and Standard Accounting and Budgeting Reporting System (SABRS) financial reports from Information Packets (INFOPAC) that are equivalent to DON departmental reports and compare budgetary and accounting data? If the data differ, do you reconcile the differences with DFAS-CL? The equivalent STARS reports are: SF-133 equals DD-1176, DD COMP(M)-1002 equals NC-2158 and DD COMP(M)-725 equals NC 2115.
3. Do you download the STARS Trial Balance reports monthly? Erroneous and out-of-balance conditions must be researched and corrected before each end of month closing.

4. As a Major Command, do you have access to the Centralized Expenditure and Reimbursable Processing System (CERPS) for reconciliation purposes? CERPS will provide the monthly outlays (disbursements and collections) at various levels of detail, and **is** available in either hard copy or CD ROM format from DFAS-CL.
5. Do you work with DFAS-CL to maintain a current, up-to-date Centralized Master Edit Table (CMET) for outlays? **An** accurate CMET will aide in reducing the number of erroneous disbursements.

## **Budgetary Resources**

1. Are all of your fund authorization documents (allocations, allotments, operating budgets) posted in a timely fashion at both the appropriation/program year and P-1 line item/AG-SAG program levels? Verify with the Office of Financial Operations/Chief of Naval Operations/Commandant of the Marine Corps (FMO/CNO/CMC) the latest fund allocations issued each month. Failure to properly post funding documents can result in a reduction to budget programs; improperly posted funding documents can also result in a negative unobligated balance when obligations exceed the allocated program value.
2. Are all fund transfers and rescissions posted in a timely manner at both appropriation/program year and P-1 line item/Activity Group--Sub-Activity Group (AG-SAG) program levels? Failure to properly post at the detail levels can result in a reduction to on-going programs, and can also result in obligations exceeding program value.
3. Do you have undistributed funds at either the major command level (NC-2158/DDCOMP(M) 1002) and/or activity levels that have not been allocated? Has below threshold reprogramming authority been properly applied? Investigating undistributed budget authority can often point to unposted allocations, or reveal a funding source for other budgetary programs.

4. Do you post all reimbursable apportioned programs to the general ledgers, to include reimbursements earned, reimbursable unfilled orders, and anticipated program values? Have reimbursable subheads been established in the local accounting systems and in CMET? Do reimbursable obligations and collections show the correct reimbursable source code in the line of accounting?

The DD COMP(M) 725 Report on Reimbursements reflects the status of reimbursable authority by source code and will highlight areas that need to be reconciled, e.g. negative receivables caused by incorrect collections or source codes, reimbursements earned/unfilled orders in excess of reimbursable authority.

5. At time of expiration, has all unused reimbursable authority (anticipated programs) been adjusted to zero? At the time that a program year expires for new obligational authority, the 30 September general ledgers and financial reports must show that reimbursements earned plus reimbursable unfilled orders equal reimbursable obligations.

## **Status of Budgetary Resources**

1. Are you conducting a quarterly review of unpaid obligations? Are obligation review reports provided to FMO within 30 days after the review period? Major Commands should develop a plan of action and issue guidance to their field activities for compliance, to include an activity report back to the Major Command.
2. Do you ensure that obligations meet the criteria set forth in 31 U.S.C. Sec. 1501? Are all obligations posted to the general ledgers within 10 calendar days? If an obligation exceeds \$100,000.00 per fund citation/accounting line, is it recorded in the same month in which the obligation is incurred?

3. During the obligation review, do you and your subordinate activities request assistance from document initiators, purchasing, contracting, disbursing and supply personnel, and DFAS Operating Locations (OPLOCS)? Is supporting documentation available to determine the continuing need for an item or service? Is a portion of the unpaid obligation available for cancellation? Are data listings provided on a routine basis to assist in the review? Is prompt action taken on these reviews?
4. Do you and your subordinate activities ensure that unneeded obligation balances, balances under contracts terminated for the convenience or for default of the government, are promptly canceled? These unused balances are posted to the general ledgers as recoveries and increase unobligated availability for use in other programs.
5. Is a periodic review of commitments conducted to ensure their validity and continuing need? If commitment balances are no longer required, are they promptly canceled and balances made available for other programs? At the time of program year expiration, are all commitments canceled?
6. In closing appropriations, do you take aggressive action to pay valid obligations prior to 30 September? This effort must be taken to minimize liability against currently available program years. If an obligation cannot be liquidated prior to closing, can interim payments be made to the contractors? This can often be accomplished in cases that are awaiting a final rate decision or other final payment close-out action. If necessary, contact the processing OPLOC or the FMO for assistance.
7. Do you and your subordinate activities have procedures in place to retain appropriate documentation such as detail data, computer listings, PC diskettes/worksheets and internal memorandum records for audit purposes on obligation reviews, canceled obligation and commitment balances, problem disbursement reviews, and other corrective actions? Are procedures established to provide FMO with summary reports, such as the type of corrective actions, the number of transactions, and the dollar values?

## Relation of Obligations to Outlays

1. Do the undelivered orders, accounts payable and outlays in your monthly Trial Balance reconcile to the departmental **SF 133** Report on Budget Execution and related accounting reports?
2. Does your Trial Balance reflect the normal account balance for each type of account? Values that are the reverse of the normal account balance often indicate that disbursements and collections either exceed the unpaid obligations and earned reimbursements, a negative cash balance exists, obligations have not been posted, or that there are uncorrected problem disbursements.
3. Are you conducting reviews to determine if receivables remain unpaid for more than 30 days from the date of billing? Are there outstanding reimbursables that cannot be collected? Outstanding receivables in excess of 30 days are considered delinquent and must be reflected on the Report of Receivables. Uncollected reimbursables should be written off when the appropriation closes and also shown on the Report of Receivables.

## Vendor Payments

1. Are you reviewing the receipt and acceptance of goods and services, and ensuring that an appropriate obligation has been established?
2. Are you providing complete information on the certification packages for payment sent to the DFAS Vendor Pay Offices? Do you have procedures in place to authorize the release of invoice packages to the Vendor Pay Offices for disbursement? The two most frequently missing pieces of information are the line of accounting (LOA) and requisition numbers.



3. Are you and your activities conducting a daily review of the Field Activity Obligation Deficiency Report (IDA 128 -- a list of invoices that failed pre-validation due to either insufficient funds, the non-posting of obligations, or an error in the document number that prevents a proper match)? The report is indexed by bureau control number (BCN) for STARS-FL, by major claimant code for STARS-HCM, and is available on INFOPAC. A similar report of invoices requiring review is available to Marine Corps activities through DFAS-KC and the related SABRS INFOPAC system.
4. Are you and your activities taking aggressive action to correct transaction errors on the IDA 128 report? Corrections may be made by simply marking up the listing and faxing it back to the Vendor Pay Office, or by calling the paying office.
5. If a transaction failed pre-validation due to the non-posting of an obligation, are you pursuing timely receipt of obligating documents from the contracting office? As stated above, obligations must be posted within 10 calendar days.
6. Does the IDA 128 report contain sufficient information to accomplish your review? If not, are you working with the vendor paying office to develop STARS queries that will satisfy your requirement?
7. The Certification Package Certificate (Attachment A to these synopses) provides information that's considered necessary for vendor paying offices to promptly and accurately process your invoices. We encourage its use. The integrity of the vendor pay process is very dependent on the functions you and your subordinate commands perform, and demands your increased support.

## Administration of Appropriations

1. Are you monitoring expired and closed appropriations to ensure that upward obligations in excess of \$1 million are forwarded to the Assistant Secretary of the Navy (Financial Management and Comptroller (ASN(FM&C))) for approval? Have you and your subordinate commands established internal systems to track all upward and downward obligation adjustments and available unobligated balances? After the period of availability of an appropriation, major commands must continue to maintain administrative control of their funds to preclude any antideficiency violation.
2. Do you verify and provide current year fund citations to DFAS for unpaid canceled account requests in a timely manner? Do you have procedures in place to obligate and make payments in the current year for canceled account adjustments? DFAS, in conjunction with the Under Secretary of Defense (Comptroller) (USD(C)), is authorized to pay invoices and other bills that have been on-hold for six (6) months or longer, and current year obligational authority in an amount sufficient to pay the on-hold invoices will be withdrawn from the fund holder.
3. Have unique subheads been assigned for each closed fiscal year? Are accounts monitored to ensure that cumulative payments do not exceed the unexpended balance of the canceled appropriation and one (1) percent of the total amount appropriated to the current account?
4. For payment of canceled account requests, have you: (a) established a control for targets that are issued to you for one percent of current program value, (b) reprogrammed funds from existing subheads/program lines to canceled account subheads/program lines, and (c) identified the canceled account reprogrammings separately from regular below threshold reprogramming actions?
5. Have you considered removing the application of the provisions of the Antideficiency Act from fund authorization documents issued to subordinate commands prior to closing? The provisions in place on your fund authorization documents at the time of closing are permanent, cannot be changed after closing, and are subject to the statutes governing 31 U.S.C. 1517. By removing restrictions, you will be able to pool resources for obligation adjustments.

6. Are you submitting approval requests to the ASN(FM&C) on monetary judgments to reimburse the Department of the Treasury Judgment Fund? Payments must be approved by the ASN(FM&C) and posted to the official accounting records under a unique subhead established by each Command specifically for that purpose.

## Problem Disbursements

1. Have all problem disbursements that are still unresolved after 180 days been obligated? You may not obligate for problem disbursements in excess of the unobligated balance available in the account. If problem disbursements, including Intransits for closing years, exceed the unobligated balance, the account is in a moratorium status and no further obligations or disbursements may be incurred. Accounts in a moratorium status must also be reviewed for a potential antideficiency violation.
2. Have all problem disbursements in the Navy Working Capital Fund that are still unresolved after 180 days been expensed and recorded to a data base code? Supply management activities must establish a unique accounting control code for these expenses.
3. Have you recorded administrative obligations for any problem disbursement that is eligible for discontinuance of research? Administrative obligations for discontinued research must be coordinated with DFAS-CL or DFAS-Kansas City (**DFAS-KC**) and approved by the ASN(FM&C) before they can be posted.
4. Are you taking aggressive action to review problem disbursements and erroneous expenditures that affect closed appropriations? The Department of the Treasury's current policy permits a closed account to be re-opened for the sole purpose of correcting erroneously charged expenditures; upward obligation adjustments do not **fall** into this category and may not be posted. Re-opened accounts are still subject to the statutes governing 31 U.S.C. 1517 and must be certified by you and the **ASN(FM&C)** at year-end.

## Mid-Year Review & Year-end

1. Do you aggressively participate in the mid-year review and Year-end Certification process with DFAS-CL/DFAS-KC by reconciling trial balances, certifications, and local accounting records? Are corrections entered into the accounting system? Are unreconciled differences formalized to DFAS-CL/DFAS-KC for correction? Issues between you and DFAS-CL/DFAS-KC that can't be resolved within a reasonable period of time should be sent to FMO for resolution.
2. Are unreconciled differences the result of needed ADP system changes? If so, are you formalizing the changes with a System Change Request (SCR) to DFAS-CL/DFAS-KC? If so, is follow-up action pursued until the SCR is completed?
3. Do you highlight significant financial issues with a qualifying statement on the year-end certification report? Has FMO been advised of these qualifications and the potential impact on Command funding?

## References

- (a) USD(C) memo of 26 Feb 96; Subj: Prompt Recording of Obligations in Official Accounting Systems
- (b) ASN(FM&C) memo of 1 Apr 96; Subj: Recording of Obligations In the Official Accounting and Reporting System
- (c) USD(C) memo of 14 May 96; Subj: Quarterly Reviews of Commitments and Obligations
- (d) ASN(FM&C) memo of 7 Dec 95; Subj: Review of Obligations Reporting Format
- (e) ASN(FM&C) memo of 11 Apr 96; Subj: Report of Obligation Review
- (f) ASN(FM&C) memo of 26 Jun 96; Reviews of Commitments and Obligations
- (g) NAVCOMPINST 7040.37B of 10 Apr 91; Subj: Guidance for Administration of Appropriations After the Period of Availability
- (h) ASN(FM&C) memo of 14 Sep 98; Subj: Fiscal 1998 Year-End Closing of the Department of the Navy Appropriations and Funds and Department of Defense Funds Allocated to the Department of the Navy
- (i) FMR, Vol. 3, Chapters 10 and 11

- (j) NAVCOMPT memo NCB-32 of 30 Sep 91; Subj: Interim Guidance for Administration of Appropriations After the Period of Availability
- (k) NAVCOMPTINST 7300.109C undtd; Subj: Aging of Accounts and Other Receivables Due From the Public
- (l) FMR Vol. 11A
- (m) ASN(FM&C) memo 7155 FMO-224 of 29 Jul 96; Subj: Guidance for Reimbursing the Department of the Treasury for Claims for Contract Disputes (Judgement Fund)
- (n) Treasury Financial Manual, Bulletin No. 98-09; Subj: Year end Closing
- (o) ASN(FM&C) memo of 2 Mar 95; Subj: Responsibilities and Procedures for Resolving Negative Problem Disbursements
- (p) USD(C) memo of 31 Mar 94; Subj: Negative Unliquidated Balances/Disbursements In Excess of Obligations
- (q) USD(C) memo of 30 Jun 95; Subj: Obligation of Amounts for Unmatched Disbursements and Negative Unliquidated Obligations
- (r) USD(C) memo of 8 Oct 96; Subj: Obligation of Fund for Problem Disbursements
- (s) ASN(FM&C) memo of 13 Mar 97; Subj: Procedures for Recording Obligations for Problem Disbursements
- (t) ASN(FM&C) memo of 3 Mar 98; Subj: Procedures for Expensing Problem Disbursements in the NWCF
- (u) ASN(FM&C) memo of 9 Mar 98; Subj: Procedures for Expensing Problem Disbursements in the Navy Working Capital Fund
- (v) ASN(FM&C) memo of 1 May 98; Subj: Clearing Problem Disbursements approved for Discontinued Research
- (w) ASN(FM&C) memo of 14 Aug 98; Subj: Invoices Requiring Current Year Funds at Defense Finance and Accounting Service Paying Offices
- (x) ASN(FM&C) memo of 27 Jan 98; Subj: Invoices Awaiting Current Year Funds
- (y) CNO ltr of 14 Jul 95; Subj: Guidance for the Administration of Appropriations After the Period of Availability
- (z) ASN(FM&C) memo of 27 Jun 95; Subj: Approval Authority of Upward Obligation Adjustments to Expired and Closed Accounts
- (aa) NAVCOMPT memo NCB-329 of 11 Jan 95; Subj: Revised Subhead Structure for Payments Against Cancelled Accounts
- (ab) ASN(FM&C) memo of 31 Jul 98; Subj: Obligations Authority Limit for Cancelled Account Adjustments

Certification Package Certificate

Certifying UIC:

Activity:

1. Point of Contact: \_\_\_\_\_ Phone **No.** \_\_\_\_\_
2. Contract Number: \_\_\_\_\_
3. Delivery Order Number: \_\_\_\_\_
4. Invoice Number: \_\_\_\_\_
5. Date Invoice Received: \_\_\_\_\_
6. Date Material/Services Received: \_\_\_\_\_
7. Date Material/Services Accepted: \_\_\_\_\_
8. Date Invoice Forwarded to Paying Office: \_\_\_\_\_
9. Amount Approved for Payment: \_\_\_\_\_
10. I certify that all funds are obligated and will not be de-obligated.

Certifying Signature: \_\_\_\_\_ Date \_\_\_\_\_

11. Line(s) of Accounting (LOAs) (See **Below**):

ACRN: \_\_\_\_\_ LOA: \_\_\_\_\_ **LOA:** \_\_\_\_\_

Requisition Number \_\_\_\_\_

ACRN: \_\_\_\_\_ LOA: \_\_\_\_\_ Amt: \_\_\_\_\_

Requisition Number \_\_\_\_\_

ACRN: \_\_\_\_\_ LOA: \_\_\_\_\_ Amt: \_\_\_\_\_

Requisition Number \_\_\_\_\_

ACRN: \_\_\_\_\_ LOA: \_\_\_\_\_ Amt: \_\_\_\_\_

Requisition Number \_\_\_\_\_